

**EXHIBIT B**



## Central Hudson Update

May, 2010



**DYNEGY**

## Current Status

- Central Hudson continues to be a challenging asset for Dynegy
  - The project is expected to have a negative cash flow of ~(\$400) MM from 2010-2015 due to operating lease payments
    - Lease payments during this period are ~\$815 MM
    - Lease payments are guaranteed by Dynegy Holdings
  - Expected NY regulations would require estimated \$375 MM capital expenditures prior to 2015 to maintain coal operations at Danskammer 3 and 4
    - Can avoid by switching to gas peaking operation
    - Could potentially return to coal operations with some incremental capital
- Central Hudson continues to have elements of value
  - Potential for market recovery
    - Fuel arbitrage at Roseton
    - Potential shutdown of nearby units such as Indian Point
    - Potential for new higher capacity value eastern NY zone
  - Potential for new development at Roseton
  - Potential for cost of capital arbitrage
    - Acquisition of PSEG lease equity

**Central Hudson is a liquidity drain of \$400 MM through 2015**

## Current Strategy

- Sell the facility to either the lessor or a third party
  - Limited buyer set due to environmental and regulatory uncertainty as well as operating cash requirements
  - Requires payment by Dynegy to purchaser
  - May be the most economic outcome, depending on price
  - Would preserve the most cash
- If sale is unsuccessful, explore defeasing the lease payments
  - Would require issuance of \$[] MM of long-term bonds yielding an estimated []% interest
  - Would offset near-term payments
- In any continuing ownership situation, some operating decisions would need to be made
  - Switching Danskammer to gas operations
    - Is most economic outcome at a cost of capital above ~11.5%
    - Requires least cash outlay
    - Limits environmental exposure
  - Continuing Danskammer coal operations
    - Is most economic outcome at a cost of capital below ~11.5%
    - Expected to require ~\$300 MM in incremental environmental upgrades
    - Continued exposure to additional unforeseen environmental regulations

# Sale Valuation

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Value (\$MM)	Low	High
Enterprise Value	\$305	\$405
<u>Lease Value</u>	<u>\$(605)</u>	<u>\$(605)</u>
Equity Value	\$(300)	\$(200)

Note: Project sale value based on Constellation feedback , which is lower than the value produced by discounting Dynegy's projected cash flows for the project

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## Sales Options – Third Parties

- Dynegy retained Bank of America Merrill Lynch to explore sales options with selected third parties
  - Merrill approached six selected counterparties to measure interest
    - Five indicated no interest
    - Constellation was sole company interested
  - Merrill indicated portfolio might draw more interest if a CCGT was included
- Constellation was allowed to do due diligence
  - Had access to historic and projected operating data
  - Spoke with selected Dynegy personnel
- Preliminary bid is (\$200)-(\$300) MM payment to Constellation to take Central Hudson
  - Indicated interest in packaging facility with Casco Bay
  - Credit dilution was cited as a potential issue

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## Sales Options - Lessor

- At PSEG's request, we had an initial discussion of possible lease restructuring transactions at our annual update meeting on March 9
  - Primary alternatives discussed were an assignment of the lessee interest to PSEG or a purchase of the lessor equity by Dynegy
- On a follow up call on April 1, Dynegy presented to PSEG a framework for analyzing value of either restructuring alternative
  - Dynegy included an indicative appetite for a payment of \$50 - \$100 million to PSEG to induce them to accept an assignment of the lessee interest
  - Dynegy did not provide an indicative range for the purchase of the lessor equity, and further indicated that we did not have a strong appetite for such a transaction but would at least be willing to listen to a counterproposal
- PSEG has subsequently requested a plant visit and opex and capex forecasts for the facilities to assist them in preparing a counterproposal
  - Opex and capex forecasts were sent to PSEG on April 22
  - Site visit it tentatively scheduled for May 5

## Conclusions/Next Steps

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- Indicated to Constellation that we were uninterested unless their range moved into the \$(100)-\$(200) MM range
  - No feedback yet
  - Continuing to work to identify other potential third party purchasers
- Facilitating PSEG's process for developing a counterproposal
  - [If counterproposal is not forthcoming in a reasonable time frame, senior management contacts will be made to facilitate the process]